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**THE CASE FOR AMERICA'S ROLE IN THE
GLOBAL MARKETPLACE —
AND “FAST-TRACK” TREATMENT
OF TRADE AGREEMENTS**

by Murray Weidenbaum

March 1998



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Murray Weidenbaum has been an economist in three worlds – business, government, and academia. He holds the Mallinckrodt Distinguished University Professorship at Washington University in St. Louis, where he also serves as the Chairman of the University's Center for the Study of American Business.

Dr. Weidenbaum was the first Assistant Secretary of the Treasury for Economic Policy. He also served as Fiscal Economist in the U.S. Bureau of the Budget and as the Corporate Economist at the Boeing Company.

In 1981 and 1982, Dr. Weidenbaum was President Reagan's chairman of the Council of Economic Advisers. He helped formulate the economic policy of the Reagan Administration and was a key spokesman on economic and financial issues. During 1982-1989, he was a member of the President's Economic Policy Advisory Board.

Dr. Weidenbaum is the author of eight books, the latest being *The Bamboo Network* (1996). His *Small Wars, Big Defense* was judged by the Association of American Publishers to be the outstanding economics book of 1992. He has written several hundred articles in publications ranging from the *American Economic Review* to *The Wall Street Journal*.

Dr. Weidenbaum's international activities include serving as Chairman of the Economic Policy Committee of the Organization for Economic Cooperation and Development and lecturing at universities and research institutions throughout Western Europe and Asia. He received the National Order of Merit from France in recognition of his contributions to foreign policy. In 1989 he was a member of a Presidential Economic Mission to Poland.

This booklet is one in a series designed to enhance the understanding of the private enterprise system and the key forces affecting it. The series provides a forum for considering vital issues in public policy and for communicating these views to a wide audience in business, government, and academia.

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PREFACE

This report on U.S. international trade policy focuses on “fast track” because so much misinformation characterized the debate on that issue in 1997. All of the data in the charts come from standard statistical sources widely used by economic analysts.

As we show in the text that follows, the “fast track” treatment of international trade treaties is not a panacea to cure all of the economic problems that challenge our nation, but rather a significant contribution to enhancing the role of the United States in the global marketplace. “Fast track” surely does not generate the large negatives envisaged by opponents and critics. We hope that the information in this report raises the level of the debates on trade policy that may occur in the years ahead.

I am grateful to Will Lauber and Marco Castaneda for assistance on the underlying research.

Murray Weidenbaum
Chairman
Center for the Study
of American Business

WHY SHOULD WE BE SO INTERESTED IN INTERNATIONAL TRADE POLICY?

- OPEN TRADE PROMOTES A MORE EFFICIENT ECONOMY, GENERATING FASTER GROWTH, MORE JOBS, AND AN IMPROVED LIVING STANDARD.

"It is the maxim of every prudent . . . family, never to attempt to make at home what it will cost . . . more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker . . . What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom."

— Adam Smith

- OPEN TRADE LOWERS INFLATIONARY PRESSURES BY INCREASING THE SUPPLY OF GOODS AND SERVICES COMPETING FOR THE CONSUMER'S DOLLAR.
- INTERNATIONAL COMPETITION RESULTS IN HIGHER QUALITY PRODUCTS (SUCH AS AUTOS).
- OPEN TRADE MINIMIZES THE ROLE OF GOVERNMENT, ALLOWING BUSINESSES AND INDIVIDUALS TO MAKE THEIR OWN CHOICES.

Note: The United States is the world's number one exporter.



MAJOR EXPORTERS IN 1996



Source: *Direction of Trade Statistics Quarterly*, International Monetary Fund, Washington, DC, June 1997.

WHAT “FAST TRACK” IS — AND WHAT IT IS NOT

- FAST TRACK DOES NOT MEAN DELEGATING THE SENATE’S TREATY POWER TO THE PRESIDENT.
 - * The Senate’s power to approve or reject all treaties (including those on a “fast track”) remains fully in effect. (This power is in the Constitution and cannot be changed by statute.)
- FAST TRACK MERELY SPEEDS UP THE PROCESS.
 - * It eliminates the possibility of changing a trade treaty after it has been presented to the Senate.
 - * All major tax bills are voted on by the House of Representatives under a similar procedure (a “closed rule”).
 - * Congress knows that otherwise no new major tax law could be passed; it would get bogged down with amendments.
 - * The same idea applies to major international trade treaties.

Note: The 1997 version of “fast track” required the President to notify Congress before starting trade negotiations and to consult with Congress before concluding any agreement. Moreover, the Congress continues to exercise strong oversight authority over the entire office of the Special Trade Representative (the focal point for negotiating trade treaties and agreements).



WHAT ARE THE PRACTICAL CONSEQUENCES OF PREVENTING FAST TRACK?

- THERE IS NO NEED TO GUESS. LOOK AT THE RECORD.
 - * Since fast track expired, nations in Europe, Asia, and Latin America have negotiated 20 regional “free trade” pacts in the Western Hemisphere and Asia without U.S. participation.
 - * Canada and Mexico have signed free-trade agreements with Chile that give their exporters an 11 percent tariff advantage over U.S. firms.
 - * While fast track was still in effect, a potential agreement with Chile was considered to be tailor-made for the United States.
- WITHOUT FAST TRACK, OTHER NATIONS AVOID ENTERING INTO TRADE NEGOTIATIONS WITH THE UNITED STATES
 - * We are being left out of an increasingly global marketplace.
 - * Our own agenda to negotiate more open foreign markets to our agriculture and high-tech products is now stymied.

DOESN'T INTERNATIONAL TRADE HURT U.S. WORKERS?

- ANY CHANGE IN PUBLIC POLICY GENERATES WINNERS AND LOSERS.
 - * Every time the government does anything — changing benefit schedules, shifting budget priorities, revising the tax laws — somebody, somewhere, can suffer some reduction in income or wealth.
- COMPASSION DOES NOT MEAN BLOCKING PROGRESS.
 - * It may mean helping those who do not share the benefits of economic change.
- U.S. WORKERS ARE SHARING ECONOMIC PROGRESS.
 - * The unemployment rate is the lowest in a quarter of a century.
 - * Year in, year out, the U.S. creates far more new jobs than Europe and Japan put together.
 - * The American economy creates more new jobs in two *weeks* than all the jobs “lost” as a result of NAFTA in its first three *years*.

LOWEST UNEMPLOYMENT RATE IN 25 YEARS



Source: U.S. Department of Labor, Bureau of Labor Statistics.

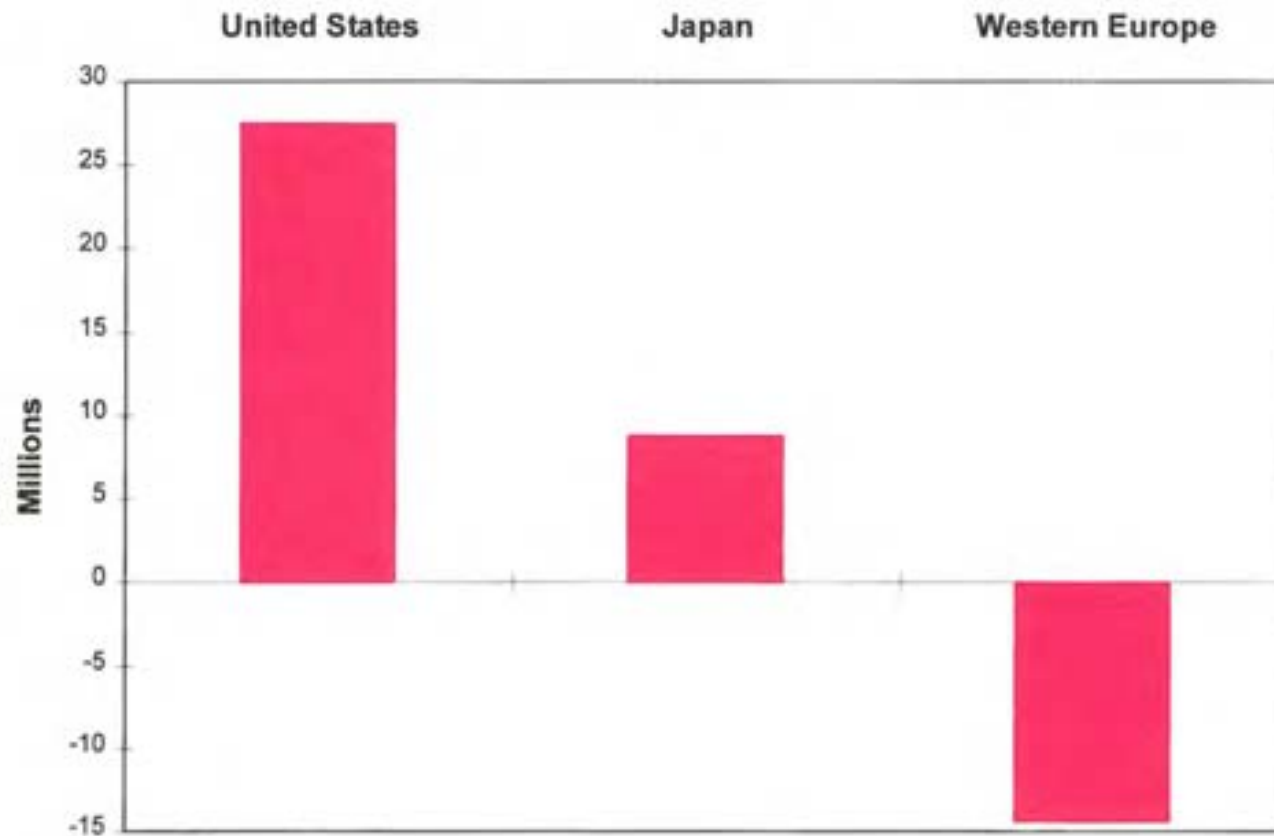
DOESN'T INTERNATIONAL TRADE HURT U.S. WORKERS?

(continued)

- THE ALTERNATIVE TO CHANGE IS TO DO NOTHING
— and see our nation stagnate or decline.
- OUR “SOCIAL SAFETY NET” HELPS THOSE WHO ARE HURT BY A CHANGING ECONOMY.
 - * Government provides unemployment compensation, food stamps, social security and other income-bolstering payments.
 - * From February 1994 to March 1997, 118,000 U.S. workers were certified as needing and eligible for NAFTA transition adjustment assistance.
 - * The most important aspect of the “social safety net” is the ability of the economy to generate new jobs for those displaced by change.

Note: Renewal of fast-track authority does not interfere with the continued operation of the many statutes designed to protect American business and labor from unfair foreign competition. These include laws covering (1) antidumping and countervailing duties, (2) “Buy American,” (3) “escape clause relief” from the effects of low U.S. tariffs, (4) quotas on imports of various agricultural and manufactured goods, and (5) prohibition of foreign ships from engaging in waterborne commerce between U.S. ports.

NET JOB CREATION, 1980-1995



DOESN'T FAST TRACK LIMIT THE PRESIDENT'S AUTHORITY TO NEGOTIATE INTERNATIONAL LABOR STANDARDS?

- OVER THE YEARS, THE UNITED STATES HAS ENTERED INTO MANY INTERNATIONAL LABOR AGREEMENTS
 - * Through our representation in the International Labor Organization (ILO).
- “FAST TRACK” DOES NOT INTERFERE WITH THE ILO PROCESS IN ANY WAY.
 - * The United States adheres to a dozen different ILO labor standards, ranging from abolishing forced labor to setting a minimum age for seamen.
 - * Most other nations adhere to far more ILO standards than we do (United Kingdom — 80; Germany — 75; Japan — 42).

INTERNATIONAL LABOR ORGANIZATION STANDARDS THE U.S. HAS AGREED TO

Officer's Competency Certificates Convention	Holidays with Pay (Sea) Convention
Shipowners' Liability (Sick and Injured Seamen) Convention	Hours of Work and Manning (Sea) Convention
Minimum Age (Sea) Convention	Certification of Able Seamen Convention
Final Articles Revision Convention	Abolition of Forced Labor Convention
Merchant Shipping (Minimum Standards) Convention	Labor Statistics Convention
Tripartite Consultation (International Labor Standards) Convention	Labor Administration Convention

Source: International Labor Organization, ILOLEX Database.

WHAT ABOUT THE ENVIRONMENT?

- THE AIR WE BREATHE AND THE WATER WE DRINK ARE CLEANER.
 - * International trade surely does not interfere with U.S. environmental progress.
- “FAST TRACK” DOES NOT REDUCE THE PRESIDENT’S ABILITY TO NEGOTIATE ENVIRONMENTAL AGREEMENTS — OR THE SENATE’S POWER TO RATIFY OR REJECT ENVIRONMENTAL TREATIES.
 - * Fast track limits “back door” efforts to tack environment issues on trade treaties.
- THE “FRONT DOOR” REMAINS WIDE OPEN. SINCE 1980, THE UNITED STATES HAS ENTERED INTO MANY INTERNATIONAL AGREEMENTS ON THE ENVIRONMENT:
 - * Protecting the ozone layer, conserving marine life in the Antarctic, protecting salmon in the North Atlantic, combating oil spills in the Caribbean, etc.
- WE CANNOT UNILATERALLY IMPOSE OUR STANDARDS ON OTHERS.
 - * The key to strong labor and environment standards in developing countries is to encourage their economic development (that was true in our own early history).
 - * Rapid economic growth requires open markets, at home and abroad, and provides the resources for improving labor and environment conditions.

U.S. ADHERENCE TO INTERNATIONAL ENVIRONMENTAL TREATIES AND AGREEMENTS SINCE 1980

Protection of the Marine Environment of the Wider Caribbean Region	UN Framework Convention on Climate Change
Oil Pollution Preparedness, Response, and Cooperation	Minimum Standards for Merchant Ships
Convention on Salvage	Ozone Layer Protection
Combating Oil Spills in the Wider Caribbean Region	Conservation of Salmon in the North Atlantic Ocean
Prevention of Marine Pollution by Dumping of Wastes	Air Pollution Concerning Emissions of Nitrogen Oxides
Prevention of Pollution from Ships	Physical Protection of Nuclear Material
Conservation of Antarctic Marine Living Resources	Convention on Wetlands
Prohibition of Fishing with Long Drift Nets in the South Pacific	Tropical Timber Agreement

Source: Consortium for International Earth Science Information Network, *Environmental Treaties and Resource Indicators*, 1997.

WHY CAN'T WE USE TRADE SANCTIONS TO ENFORCE LABOR AND ENVIRONMENT LAWS?

ARGUMENT: Trade sanctions can be used to enforce intellectual property laws.

RESPONSE: The two categories are fundamentally different.

- * *Multilateral* intellectual property laws protect *American* interests.
- * *Unilateral* trade sanctions inevitably fail to achieve their objective. Their main practical effect is to divert business and jobs from the United States to our overseas competitors with little negative impact on the object of the sanctions.
- * Foreign labor and environmental laws protect the interests of people in other countries. (But this is the responsibility of their own governments and their society.)



SHOULD WE BE CONCERNED ABOUT U.S. COMPANIES MOVING THEIR OPERATIONS OVERSEAS?

YES: When the move is due to a hostile regulatory environment in the United States.

Some U.S. medical equipment producers have set up shop in the Netherlands,

- * A high cost country with high standards — but a more efficient regulatory system than here.

NO: When the motive is to locate in foreign markets and to meet foreign competition.

Most U.S. businesses overseas sell primarily to foreign customers.

- * And they import more capital goods and components from the United States than their overseas competitors do.

Note: The major U.S. overseas investments are in high-cost areas with large market potential for U.S. products (United Kingdom, Canada, Germany, Netherlands, Switzerland, and France).

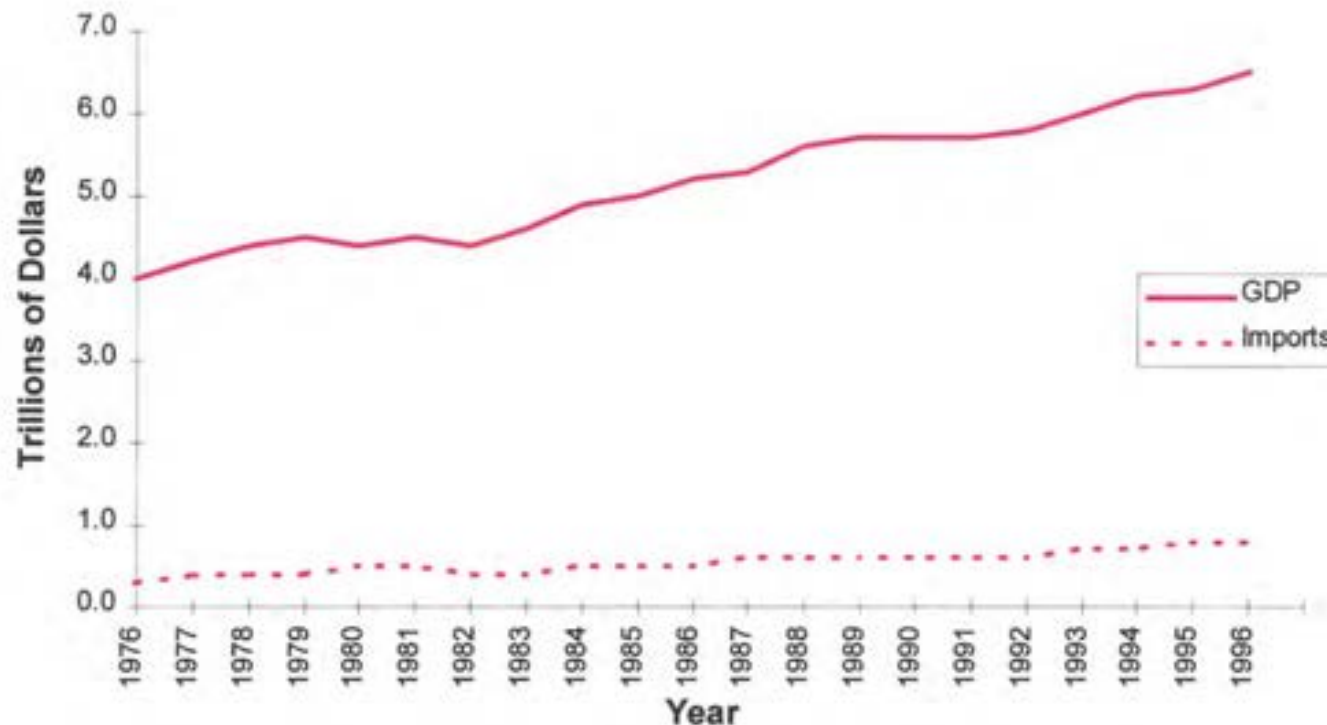
SO WHY DO WE HAVE SUCH LARGE TRADE DEFICITS?

- THE BASIC ANSWER IS THAT WE HAVE A VERY HIGH LIVING STANDARD.
 - * Most Americans can afford to buy large quantities of domestic products *and* imports.
 - * Many people overseas are too poor to buy our products in similar quantity.
- WE HAVE THE LARGEST POPULATION IN THE INDUSTRIALIZED WORLD.
 - * The average Japanese spends more on U.S. products (\$538 in 1996) than the average American spends on Japanese products (\$432 in 1996).
 - * But we have far more people than they do.
- SOME U.S. POLICIES HURT OUR OWN EXPORTS: UNILATERAL TRADE SANCTIONS, SPECIAL EXPORT RESTRAINTS.
- WE SHOULD SEE IMPORTS IN PERSPECTIVE.
 - * The accompanying chart shows how our Gross Domestic Product dwarfs total U.S. imports.

Note: An increase in our trade deficit is linked with lower unemployment in the United States because a strong domestic economy attracts additional imports.



U.S. GROSS DOMESTIC PRODUCT AND IMPORTS, 1976-1997



Source: *International Financial Statistics Yearbook 1997.*

HASN'T U.S. TRADE WITH MEXICO TURNED FROM SURPLUS TO DEFICIT SINCE NAFTA?

- YES, BECAUSE MEXICO SUFFERED A MAJOR ECONOMIC DECLINE IN 1995.
 - * Recessions reduce imports.
 - * NAFTA helped Mexico achieve a quick recovery.
- THAT TYPE OF “SPURIOUS CORRELATION” CAN ALSO BE APPLIED TO THE DEFEAT OF FAST TRACK
 - * Since the 1997 defeat of fast track legislation, the U.S. trade deficit has risen.
 - * But the real reason is that the East Asian economies all declined simultaneously and they are buying less and selling at lower prices.
- MORAL: BEWARE EASY ANSWERS.
 - * When all is said and done, the U.S. economy is the envy of the world.
 - * We must be doing something right.

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